IMF SURVEY

A PUBLICATION OF THE INTERNATIONAL MONETARY FUND

September 21, 1992

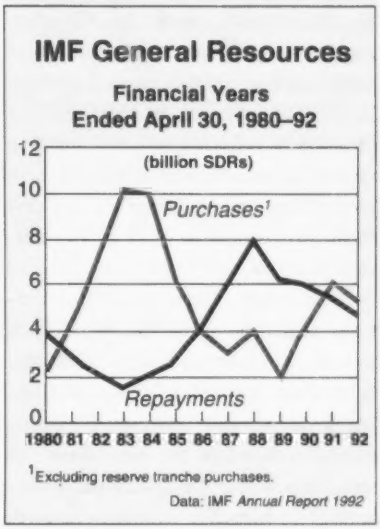
Annual Report . . .

IMF Moved Toward Universal Membership During 1991/92

The IMF made major progress toward universal membership during the financial year 1991/92 (ended April 30, 1992), with more than twenty countries—including all the states of the former U.S.S.R.—submitting applications, according to the 1992 Annual Report of the IMF's Executive Board to the Board of Governors. When all applications are processed, the IMF's membership will have increased to 178 countries, from 157 at the end of April 1991.

The report also points out that the IMF played a leading role in international efforts to support the transformation of the previously centrally planned economies of the former U.S.S.R. and Eastern Europe. Moreover, its financial commitments to its members rose sharply in 1991/92, to SDR 8.7 billion from SDR 5.6 billion in the previous financial year.

The report, which was released on September 10, has two main sections. The first reviews major developments in the world economy in 1991 and early 1992, as well as broad trends in the industrial countries, the developing countries, Eastern Europe, and the states of the former U.S.S.R. The second section focuses on the IMF's main activities during 1991/92, including its policy surveillance, its financial support of member countries, its technical assistance activities, its role in trade policy, and its financial operations.



World Economic Developments

World economic growth declined slightly in 1991, according to the report, owing to *(Please turn to page 279)*

CONTENTS

Volume 21, Number 18

IMF ACTIVITIES

Annual Report
Page 273

World Economic Outlook
Page 274

***Direction of Trade Statistics* Yearbook**
Page 277

From the Executive Board
Page 282

Table of Stand-by, Extended, SAF, and ESAF Arrangements
Page 283

Currency Units per SDR
Page 284

NATIONAL ECONOMIES

IMF-Supported Program Helps India Emerge from Crisis
Page 285

IMF ACTIVITIES

World Economic Outlook Sees Signs of Global Recovery

Global economic activity began to revive in the first half of 1992, as some major industrial countries' started to emerge from the stagnation experienced in 1991, according to the IMF staff's latest *World Economic Outlook (WEO).*

The report, which was issued to the press in unpublished form on September 16 (statistical data is as of September 4) and is to be published in the second week of October, projects a gradual strengthening of world output growth from 1 percent in 1992 to 3 percent in 1993. Further progress in reducing national inflation rates is expected, and the growth of world trade is projected to increase from 2¼ percent in 1991 to 6¾ percent in 1993.

At the same time, the *WEO* cautions that "the projected recovery is modest by past standards" and that economies' unused capacities and unemployment rates "may not be significantly reduced in the near term." It sees little scope for additional policy actions to stimulate economic growth in the short run and emphasizes that "major fiscal adjustments . . . are urgently required to improve confidence and strengthen prospects for sustained growth over the medium term."

The report observes that, despite the recent weakness in the international environment, economic growth in many developing countries has remained relatively strong, and many countries have made substantial progress in implementing policy programs designed to achieve macroeconomic stabilization and structural reform. It adds, however, that inadequate policy efforts remain an obstacle to the achievement of sustained growth in many other countries.

Industrial Countries

Since the early 1980s, the report notes, industrial countries have generally sought to pursue their economic policies in the context of a medium-term growth strategy. The strategy's basic elements have included the pursuit of price stability; the promotion of higher rates of investment and saving, especially through reductions in government deficits; and—through structural reforms—the elimination of obstacles to efficient resource allocation and job creation.

The industrial countries' record in achieving these objectives has been mixed.

- They have been most successful in reducing their inflation rates during the past decade. Still, the report cautions, inflation needs to be reduced further in several countries (for example, Italy, Germany, Greece, and Portugal).
- Budget deficits have declined substantially in some industrial countries, but have remained excessive in others. In some of the countries that had achieved fiscal consolidation earlier, deficits have recently widened. The *WEO* notes that excessive deficits "have contributed to the persistence of historically high real long-term interest rates."
- The report emphasizes the need for redoubled efforts to dismantle trade barriers, reduce industrial and agricultural subsidies, and improve the functioning of labor markets, particularly in countries with high unemployment rates. It notes that the delay in concluding the Uruguay Round of multilateral trade negotiations is worrisome and that a failure to conclude the Round would be "a major setback."
- Substantial progress has been made by industrial countries in liberalizing their financial markets, according to the report, but "to reduce the risk of excessive leveraging and unsustainable increases in asset prices," national authorities "will need to strengthen oversight and to pay greater attention to developments in asset markets in formulating the appropriate policy stance."

The industrial countries' failure to fully implement the medium-term strategy has contributed to their current economic difficulties. These began, the report observes, in the late 1980s, when inflation rates climbed in several countries following a steady decline during 1982–86. The tightening of monetary policies that was required during 1988 and 1989 inevitably produced either slowdowns in growth or outright recessions; still, the declines in industrial countries' output seen during 1990–91—from 2½ percent growth in 1990 to about ½ of 1 percentage point in 1991—were smaller than those seen during the 1974–75 and 1980–82 recessions. The report projects industrial country growth of 1¾ percent in 1992 and nearly 3 percent in 1993.

Deficiencies and slippages in implementing fiscal consolidation and struc-

tural reform have helped to bring about industrial countries' sluggish recovery from the 1990–91 recession. Remedying such deficiencies, the *WEO* notes, is essential to the achievement of a more robust recovery.

In Europe, the report states, the emergence of the substantial deficit in Germany associated with its unification has created domestic inflationary pressures and has kept European interest rates relatively high. It notes that in North America and Japan, policy-related interest rates have been "reduced considerably and appropriately" in an effort to stimulate economic activity.

At the same time, the persistence of high real long-term interest rates and depressed consumer and business confidence have acted as drags on these economies. These problems, the *WEO* continues, reflect the limited progress made in reducing the U.S. structural budget deficit, the high inflation rates seen in North America for much of the past two decades, and the financial imbalances that have resulted from "the borrowing binges and speculative excesses of the 1980s."

Looking to the future, the report suggests that additional interest rate reductions would "not now appear to be necessary" in countries that have already substantially reduced policy-related interest rates. It also cautions that in Germany "an easing of monetary conditions must await clear evidence that inflationary pressures are receding."

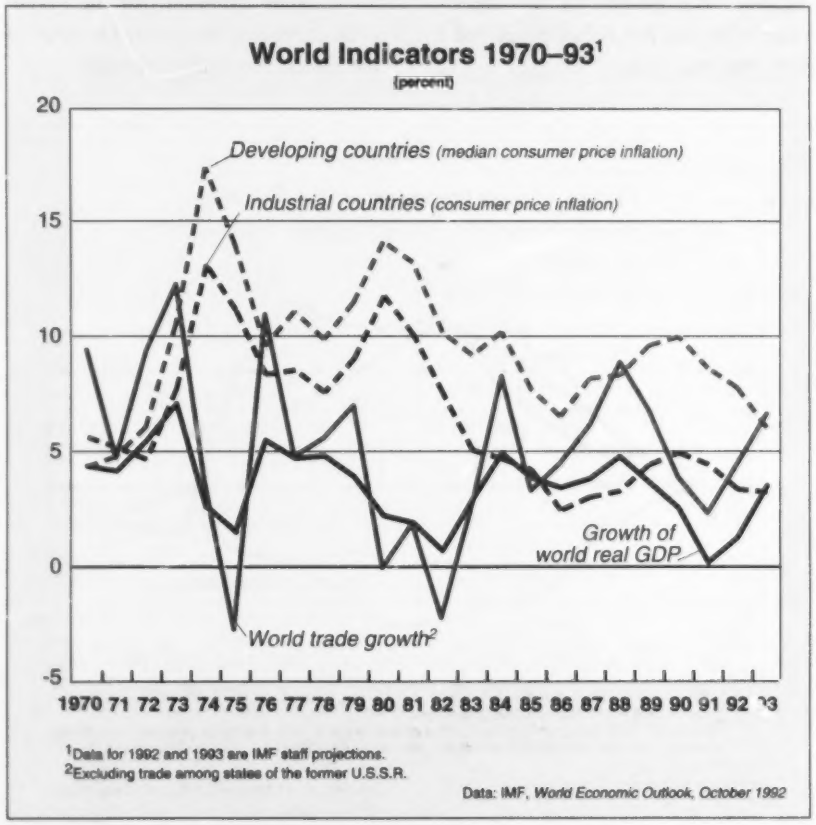
Growth Projections. The report projects that in view of the stronger balance sheets and increased international competitiveness of U.S. firms, as well as the marked decline in U.S. short-term interest rates, real GDP in the United States will increase by 2 percent in 1992 and by 3 percent in 1993. The *WEO* also expresses the view that "a determined new effort to reduce the federal budget deficit is urgently required as a necessary condition for a more satisfactory economic performance over the medium term."

The European Community (EC) is expected to achieve real GDP growth of 1½ percent in 1992 and 2¼ percent in 1993. The report cautions that these rates of growth may not bring about a reversal of the increase in the EC's unemployment rate, which is projected to reach 10 percent in 1992. It adds that "notwithstanding the push to liberalize and deregulate generated by the Single Market program, many structural impediments remain to be tackled, particularly in the areas of labor markets and government subsidies."

Japan's GDP is expected to grow by 2 percent in 1992, increasing to 3¼ percent in 1993. The report notes that measures recently taken and contemplated by the Government to stimulate economic activity should not prevent the country from meeting its medium-term budget objectives. It adds that "Japan's medium-term outlook remains strong, with potential growth of about 3½ percent."

Developing Countries

The *World Economic Outlook* projects that developing countries will grow at an annual rate of 6¼ percent during 1992 and 1993. It notes that the only developing countries whose outlook has worsened recently are the countries in southern Africa that are suffering from severe drought. Other developing countries, although they continue to be adversely affected by sluggish world demand and the weak-


World Indicators 1970–93[1]
(percent)
20
15
10
5
0
-5
Developing countries (median consumer price inflation)
Industrial countries (consumer price inflation)
Growth of world real GDP
World trade growth[2]
1970 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93
[1]Data for 1992 and 1993 are IMF staff projections.
[2]Excluding trade among states of the former U.S.S.R.
Data: IMF, World Economic Outlook, October 1992

ness of commodity prices, have clearly benefited from the impact on their debt-servicing costs of lower short-term interest rates in the United States and Japan, and from debt-restructuring agreements. In addition, reconstruction in the Middle East is providing a considerable stimulus to economic activity there.

The report also states that there is evidence that stabilization and economic reform programs in developing countries "are beginning to bear fruit in an increasing number of cases." It adds that "as many as 35 countries—accounting for over 50 percent of output in the developing world—can now be classified as successful adjusters" even though their reform programs have not yet been completed in some instances. The key to their success, the report notes, has been their persistent efforts to reduce fiscal deficits and to control inflation. Recognition of the importance of market forces has also played a very important role.

The *World Economic Outlook* adds that "a growing—but still limited—number of developing countries" have achieved a reversal of capital flight and substantial capital inflows in the form of both direct and portfolio investments. It welcomed these developments as signs of improved investor confidence in these economies but cautioned that they would need to make appropriate policy adjustments to avoid overheating.

Former Centrally Planned Economies

The early phases of the economic transformation process under way in the countries of Eastern Europe and the former Soviet Union, according to the report, were accompanied by a marked drop in output in 1991. Further substantial output drops are expected in 1992, even though "there are grounds for cautious optimism that the output contraction may have ended in some of the Eastern European countries."

The report states that besides the unavoidable disruptions associated with dismantling command systems and replacing them with market-based ones, output declines have been experienced because of the breakdown of trade among former members of the Council for Mutual Economic Assistance (CMEA), the obsolescence of much of the existing capital stock, rigidities in capital and labor markets, and financing constraints.

The *World Economic Outlook* cautions that in Eastern Europe much remains to be done to remedy uncertainties about property rights, the lack of an effective financial system, an inadequate supply of management and financial skills, and the slow pace of privatization of medium and large enterprises. The report also points out that the countries of the former Soviet Union are still in the very early stages of the reform process.

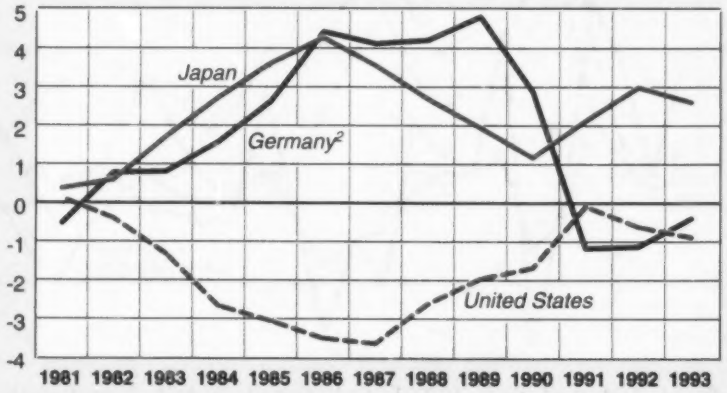
While the former Soviet states have implemented some substantial structural reforms, such as price liberalization, further progress in introducing commercial accountability and hard budget constraints for state enterprises is essential if the proper environment is to be created for economic transformation. It also notes that the establishment of clear and effective monetary arrangements within the ruble area is "particularly urgent." The support of the international community is described as "vital to help limit the cost of transition and to reduce the risk of setbacks in the reforming countries' own policy efforts."

External Trade and Payments

The *WEO* points out that after the strong economic expansion of 1987–89, world trade grew by 4 percent in 1990 and by 2¼ percent in 1991. It projects that stronger global economic activity will result in an increase in the growth rate of world

Three Major Industrial Countries: Current Account Imbalances 1981–93[1]

(percent of GDP)



[1]Data for 1992 and 1993 are IMF staff projections.
[2]Prior to July 1990, the current account balance of west Germany, excluding the bilateral balance with east Germany; from July 1990, the current account balance of unified Germany. Data are in terms of GNP.

Data: IMF, *World Economic Outlook, October 1992*

trade to 4½ percent in 1992 and 6¾ percent in 1993.

The current account deficit of the United States declined sharply in 1991, primarily because of war-related transfers and the recession. Since these influences are no longer being felt, the deficit is expected to widen in 1992. Japan's current account surplus doubled to 2¼ percent of GDP in 1991 and is projected to increase further to 3 percent of GDP in 1992. In Germany, the current account surplus switched into deficit in 1991 as much of German production moved from producing exports to meeting domestic demand as a result of unification.

The aggregate current account deficit of the developing countries increased sharply, moving from $14 billion in 1990 to $78 billion in 1991. The report projects that the overall current account deficit of the developing countries will decrease to $52 billion in 1992 and then increase slightly to $53 billion in 1993. It estimates that the aggregate current account deficit of Eastern European countries will decline from $6½ billion in 1991 to $3 billion in 1992.

While cautioning that "only scattered information" is available on the external trade of the 15 former Soviet republics, the *WEO* states that preliminary projections indicate that they will have a combined current account deficit of about $15 billion in 1992 and $20 billion in 1993, assuming that they receive "sizable" external financial support.

The English edition of the *World Economic Outlook, October 1992* will be published during the second week of October and the French, Spanish, and Arabic editions will be published in November. Copies will be available for US$30.00 (US$20.00 for full-time faculty members and students at universities and colleges) from Publication Services, Box S-354, International Monetary Fund, Washington, DC 20431, U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201.

World Trade Slowed Down Markedly in 1991

The growth of the value of world trade in U.S. dollar terms slowed to about 4 percent (3.7 percent for exports and 4.2 percent for imports) in 1991 from 14.5 percent in 1990 and 8.2 percent in 1989, according to data published in the 1992 *Direction of Trade Statistics (DOTS)* Yearbook. The slowdown in 1991 was marked by a decline in trade value growth to about 3 percent. This was the third consecutive decline and the smallest gain since 1983. These developments reflected the slowdown in world economic growth, the decline in commodity prices, and the collapse of the traditional trade ties within Eastern Europe and between that region and the former U.S.S.R.

Industrial Countries

In 1991, the value of trade of industrial countries increased at a much lower rate than that of world trade. Industrial countries' exports grew by 2.1 percent and their imports by 0.9 percent, compared with increases in exports and imports of approximately 15 percent in 1990. The slowdown in industrial countries' trade can

DOTS Yearbook Provides Data For 161 Countries

The *DOTS* Yearbook presents, for 1985–91, annual data on merchandise trade by partner countries for exports (f.o.b.) and imports (c.i.f.). It covers 161 countries. The Yearbook also presents world tables showing trade flows between major areas of the world. The country composition of these areas is consistent with that used in other IMF statistical publications and includes industrial and developing country groups, with the latter group being divided into five geographic regions.

Most of the data published in the Yearbook were reported by IMF members and associated territories and by Switzerland, which became a member of the IMF on May 29, 1992. As of April 30, 1992, the cutoff date for data for the Yearbook, countries representing 81 percent of world exports and 82 percent of world imports had reported data covering the full year 1991. In addition, the Yearbook presents estimates for countries, particularly nonmembers of the IMF, for which data are not current or available.

DOTS Yearbook data are expressed in U.S. dollars to facilitate intercountry comparisons and the calculation of world and area aggregates. However, variations in the exchange value of the U.S. dollar over the period covered by the Yearbook should be taken into account in interpreting changes in value data.

The 1992 *Direction of Trade Statistics* Yearbook is available for $US25 a copy. The subscription price for *DOTS*, which includes four quarterly issues and the yearbook, is US$86 (US$43 for university faculty and students). Please write to Publication Services, Box 260, International Monetary Fund, Washington, D.C. 20431, U.S.A.

READEX FICHE

be attributed to the decline in their economic growth. Recessions in North America and the United Kingdom marked 1991, and Japan and the industrial countries in Europe experienced slower growth .

Because their imports increased by less than their exports, industrial countries' trade deficits narrowed from a peak of $123 billion in 1990 to $94 billion in 1991. Changes in the trade balances of the three largest trading nations were uneven. The U.S. trade deficit fell by almost 30 percent, with imports declining for the first time since 1982. The trade surplus of Germany (data for Germany in the *DOTS* Yearbook cover the territory of reunified Germany starting with July 1990) almost disappeared as exports declined and imports surged to meet the demand in the eastern part of the country. Japan's trade surplus increased by approximately 50 percent.

The *DOTS* Yearbook also indicates that in 1991, the United States surpassed Germany and reclaimed its position as the world's largest exporter: U.S. exports increased by 7.3 percent to $422.2 billion.

World Trade Flows

(billion U.S. dollars)

	With Industrial Countries		With Developing Countries		With Other Countries n.i.e.[1]		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Industrial countries								
1985	921.7	965.5	307.6	380.9	26.0	26.8	1,268.4	1,378.3
1986	1,110.7	1,155.6	325.5	364.1	26.4	24.2	1,475.7	1,550.2
1987	1,323.5	1,358.7	369.5	435.0	26.8	27.0	1,733.8	1,828.7
1988	1,503.3	1,542.6	432.1	487.0	31.5	28.0	1,983.9	2,070.3
1989	1,610.8	1,651.0	463.6	544.2	35.1	30.0	2,127.3	2,238.6
1990	1,865.8	1,904.0	527.5	615.4	37.1	35.1	2,445.4	2,568.3
1991	1,871.5	1,912.9	584.4	632.5	31.4	33.0	2,497.5	2,591.2
Developing countries								
1985	331.3	312.6	163.8	162.8	28.9	25.1	544.3	512.1
1986	310.2	322.3	152.8	153.3	27.6	27.3	509.1	513.6
1987	381.7	365.4	187.9	184.6	28.0	27.6	618.9	591.6
1988	427.1	436.6	228.5	220.9	30.6	29.1	706.3	701.6
1989	476.3	468.8	252.0	247.9	32.7	28.3	781.8	762.9
1990	538.6	535.9	291.9	284.9	27.6	24.2	884.9	864.4
1991	577.1	622.2	328.3	323.0	24.8	22.4	956.9	986.5

[1]Albania, Bulgaria, Cuba, former German Democratic Republic (through June 1990), the Democratic People's Republic of Korea, Mongolia, and the former USSR.

Data: IMF, *Direction of Trade Statistics Yearbook, 1992*

Developing Countries

The trade of developing countries increased at a higher rate in 1991 than did world trade. Exports increased by 8.1 percent, compared with 13.2 percent in 1990, while imports grew by 14.1 percent, compared with 13.3 percent. As a result, the aggregate trade balance of the developing countries shifted into deficit, the first since 1986, of $30 billion. The deficit resulted from

- a deterioration (caused by a decline in the price of oil and many other commodities) in the terms of trade of developing countries;
- weak growth of export markets associated with the economic slowdown in industrial countries; and
- a rapid growth of imports in Asia and the Western Hemisphere.

The trade of Asian developing countries accelerated in 1991 despite adverse developments in a number of countries. Bangladesh, China, and the Philippines experienced natural disasters, the Middle East was the scene of a war, and India's external trade was severely affected by developments in the former U.S.S.R.

Asian developing countries' exports increased by 13.8 percent, compared with 12.5 percent in 1990, while their imports rose by 15.1 percent, against 14 percent in 1990. These increases stemmed mainly from the rapid growth of intraregional trade, which rose by about 23 percent in 1991. The 1991 growth was preceded by several years of continuous increases. The value (f.o.b.) of regional trade for Asian developing countries rose from $59 billion in 1986 (equivalent to 26 percent of Asia's total exports) to $186 billion in 1991 (36 percent of total exports). During the last several years, Asian imports have increased at a faster pace than exports. As a result, the region's trade balance with the world has declined since 1987, reaching a deficit of $23 billion in 1991.

In contrast, with Asia, the trade of African countries slowed markedly in 1991. Exports increased by 1.8 percent, compared with 20.5 percent in 1990, while imports increased by 0.9 percent, compared with 17.5 percent. The slowdown in Africa's trade was mainly attributable to

- the decline in the terms of trade;
- financing constraints;
- declining economic growth in industrial countries;
- the effects of civil disturbances and natural disasters in several countries; and
- the impact of lower oil prices on oil exporters.

Exports of developing countries in Europe increased by 2.5 percent in 1991 after declining by 5.1 percent in 1990. Imports of the region remained practically unchanged from 1990 levels. These developments reflected the contraction of output in East European countries and the disruption of trade flows between the former U.S.S.R. and its former partners in the Council for Mutual Economic Assistance.

The trade surplus of the Middle East, which includes eight major petroleum exporters, fell sharply in 1991. The crisis in this region affected the output of several countries (mainly Iraq and Kuwait), while lower oil prices contributed to a decline in exports, which was accompanied by a considerable increase in imports.

The combined trade surplus recorded by the Western Hemisphere countries in 1990 shifted into deficit in 1991 as exports grew by 9.8 percent and imports by 28.5 percent. The large increase in imports in 1991 resulted from the strong demand for capital goods, a surge in consumption, and the liberalization of external trade.

Other Countries

This group includes the former U.S.S.R. and other countries for which no directly reported data are received by the IMF. The trade of the former U.S.S.R. with the rest of the world declined by 7.2 percent for exports and by 16.7 percent for imports. These declines resulted from a decrease in oil output and prices and the disruption in trade flows among East European countries and the former U.S.S.R.

Photo credit: World Bank Photo, page 288.

Demand for IMF Resources Rose Sharply in 1991/92

(continued from front page) the sharp drop in output in Eastern Europe and the former U.S.S.R. and stagnation in the Middle East, following the conflict in that region. In the developing countries, however, growth averaged 3¼ percent in 1991—only slightly less than in 1990. Among other trends, the report points out that:

- inflation declined in both the industrial and the developing countries in 1991, although it rose sharply in the former U.S.S.R.;
- the industrial countries' combined current account deficit narrowed to about $25 billion in 1991, from almost $100 billion in 1990, largely owing to transfers related to the Middle East crisis and terms of trade gains stemming from lower oil prices;
- the aggregate current account deficit of the developing countries (excluding Eastern Europe and the former U.S.S.R.) widened to $85 billion in 1991 from $8 billion in 1990, with war-related transfers accounting for roughly half the increase; and
- the total external debt of the developing countries rose by 4 percent to about $1,500 billion, owing to increases in the debts of Asian, Middle Eastern, and, to a lesser extent, Western Hemisphere countries.

IMF Financial Support

The IMF's Executive Board approved 29 new arrangements with member countries during 1991/92, according to the report—9 more than in the previous financial year. At the end of April 1992, a record 53 countries had outstanding arrangements with the IMF.

The report attributes the increase in the demand for IMF resources during 1991/92 to two major developments:

- the adoption of IMF-supported macroeconomic and structural reform programs by three large borrowers—Argentina, Brazil, and India—which together accounted for commitments of SDR 6.1 billion, or more than two thirds of the total; and
- the sharp rise in world oil and gas prices immediately following the outbreak of the Middle East crisis in August 1990, which prompted a number of countries to adopt IMF-supported programs and to make drawings under the specially constituted oil element of the compensatory and contingency financing facility (CCFF).

In discussing the IMF's financial support for its members, the report also covers Executive Board reviews of conditionality under stand-by and extended arrangements (that is, of the conditions under which the IMF provides financial assistance) and of the operations of the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF).

The Board concluded that member countries' economic performance under the 44 programs reviewed (covering stand-by and extended arrangements during 1985–88) was better than under similar programs implemented during the early 1980s, although continued progress was needed. There was a strong link between successfully carrying out planned fiscal and credit policies and achieving balance of payments, inflation, and growth objectives. But this relationship was far from perfect. The Board made no major changes to the guidelines on conditionality, which "continued to provide an appropriate basis for IMF policies on the use of its resources."

In its review of the operations of the SAF and the ESAF (covering 93 annual arrangements during the five years through the end of May 1991), the Board was encouraged that some countries had made good progress, especially under the ESAF, and that a few were approaching a position where they would no longer need exceptional financial assistance. But it was important for governments to continue with policies to promote external viability with sustainable growth. In April 1992, the IMF extended eligibility to use the ESAF to 11 additional countries.

The IMF and the States of the Former U.S.S.R.

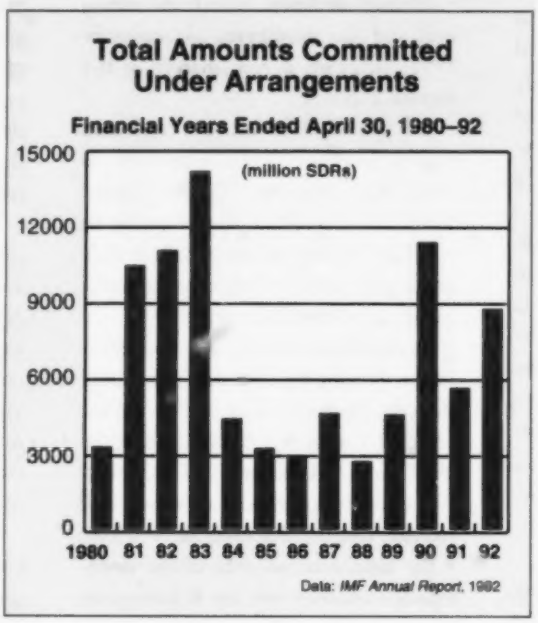
The report notes that the IMF monitored economic developments in the states of the former U.S.S.R. throughout 1991 and early 1992. On October 5, 1991, the IMF and the former U.S.S.R. signed a Special Association agreement, which opened the way for policy advice and technical assistance to be made available immediately. After the dissolution of the Soviet Union, the IMF provided such advice and assistance to the individual member states. Subsequently, it reviewed these states' economies and determined their quotas.

The pre-membership economic reviews indicated that the states of the former U.S.S.R. confront urgent common problems related to

- the choice of currency—specifically, the decision of whether to stay within the ruble area or to establish an independent currency;
- interstate trade, which involves developing import and export sectors in line with comparative advantage while preventing a disorderly collapse of the existing trade system;
- monetary and fiscal policies, which call for agreement on simple ground rules for setting interest rates, exchange rates, reserve requirements, and credit guidelines, as well as a common commitment to responsible fiscal policies; and
- structural reforms, which must proceed rapidly if the transition to a market-based economy is to be successful.

The report notes that, during its April 1992 meeting, the Interim Committee called on the international community to provide adequate support for the stabilization and reform programs of the states of the former U.S.S.R. and to help finance a stabilization fund for the ruble, provided that appropriate conditions were met. At the same time, the countries that lend to the IMF under the General Arrangements to Borrow agreed to activate these arrangements to help finance a ruble stabilization fund.

By May 4, 1992, the Board of Governors of the IMF had adopted membership resolutions for all 15 states of the former U.S.S.R. As of August 15, 10 of them—Armenia, Belarus, Estonia, Georgia, Kazakhstan, Kyrghyzstan, Latvia, Lithuania, Moldova, and the Russian Federation—had joined the IMF.



Surveillance

The IMF carries out its surveillance of members' economies through regular assessments of their policies and through twice-yearly Executive Board discussions of the world economic outlook.

During its April 1992 discussion, the Board expressed concern at the continued economic sluggishness in the industrial countries, but expected a more sustained recovery later in 1992 and in 1993. Directors welcomed the stronger growth performance and outlook for the developing countries and urged governments to increase efficiency by raising investment in physical and human capital and by allowing market forces to play a larger role in resource allocation.

External Debt

In recent years, according to the report, the developing country debt strategy has evolved toward voluntary, market-based reduction of commercial bank debt, with support as necessary from international financial institutions, including the IMF. Official creditors have also provided increased debt relief, particularly for the poorest countries.

In their discussions on the debt strategy, Directors stressed the continued central importance of the debtor countries' sustaining sound macroeconomic and structural reform policies. They welcomed the moves by

Paris Club creditors to provide greater concessions in rescheduling for low-income countries. They recognized, however, that many of these countries faced particularly difficult debt situations and would need further concessions. In the area of commercial debt, Directors were encouraged that those middle-income countries that had progressed toward debt restructurings had been able to regain some access to international capital markets and achieve satisfactory economic growth. They stressed the need for commercial creditors to continue to provide debt restructuring options on a timely basis for countries pursuing strong policy reforms.

The Global Monetary System

Covering the Board's discussion of the evolution of the international monetary system, which the IMF is responsible for overseeing, the report notes that the system was evolving in a multicurrency—and possibly multipolar—direction, in which the major currencies had special responsibilities to serve as anchors against inflation. The Board saw the weaknesses in the system as resulting largely from problems outside the exchange rate area—mainly the need for more disciplined and effective national policies. Stability could also be enhanced by reinforcing the mechanisms for multilateral surveillance and policy coordination among the industrial countries. The Board agreed that exchange rate commitments had to be tailored to the circumstances of individual countries.

In its discussion of monetary unions and common currency areas, the Board cited the advantages of joining a currency union, including reduced transactions costs (associated with the wide circulation of a single currency), increased economic discipline, and participation in a large-scale financial capital market within a stable economic environment.

The report notes that Directors differed on the appropriate speed of transition toward monetary union in Europe. Whereas a few favored a relatively fast transition, more believed that a gradual approach would improve prospects for achieving the best, as opposed to the average, level of inflation. Several Directors thought the pace of transition would ultimately be decided by social and political considerations.

Number of Arrangements Approved During Financial Years Ended April 30, 1980–92

Financial Year	Stand-by	EFF	SAF	ESAF	Total
1980	24	4			28
1981	21	11			32
1982	19	5			24
1983	27	4			31
1984	25	2			27
1985	24				24
1986	18	1			19
1987	22		10		32
1988	14	1	15		30
1989	12	1	4	7	24
1990	136	3	3	4	26
1991	13	2	2	3	20
1992	21	2	1	5	29

Data: IMF, *Annual Report*, 1992

Trade Policy Issues

Noting the steady growth of international trade and investment over the past decade, the report states that, although many developing countries—especially in Latin America and Eastern Europe—have made good progress in liberalizing their trade regimes, industrial countries have reduced trade barriers to only a limited extent. In its November 1991 review of the world trade system, the Board emphasized the importance of a successful Uruguay Round. This would greatly improve the world trading environment for all countries and, thereby, the effectiveness of policies in IMF-supported arrangements.

The Board generally saw regional trade agreements as a positive force, but urged IMF members to ensure that such arrangements are consistent with the General Agreement on Tariffs and Trade and with open trade.

The Board agreed that priority should be given to the trade reform content of IMF-supported programs and the coverage of trade issues in Article IV consultations. At the same time, there should be continued collaboration with other institutions that have responsibilities in the trade area.

Technical Assistance and Training

The demand for technical assistance has, according to the report, increased sharply with the expansion of the IMF's membership and of the volume and extent of its operations. Much of this demand has come from the countries in transition to a market economy.

The report states that in providing technical assistance, the IMF emphasizes training government officials in macroeconomic management, developing central banking and financial systems, reforming the tax system and tax administration, and improving statistical data. The IMF is working with five other international institutions to establish a new regional training center in Vienna to provide assistance to officials from Eastern Europe, the states of the former U.S.S.R., and other former centrally planned economies.

Financial Operations and Policies

The report points out that the expansion of the IMF's membership, the associated increase in the potential demand for its resources, and the rise in the number of members receiving financial support underscore the need to

bring into effect as soon as possible the 50 percent quota increase authorized by the Board of Governors under the Ninth General Quota Review.

With respect to IMF financial operations, the report states that, although commitments of IMF resources increased substantially in 1991/92, actual purchases (drawings) from the General Resources Account (GRA) declined somewhat, to SDR 5.3 billion from SDR 6.2 billion in 1990/91. The decline stemmed mainly from lower disbursements under the CCFF and extended arrangements. Repurchases (repayments) under the GRA also declined during 1991/92, to SDR 4.8 billion. As a result, IMF credit outstanding in the GRA increased by SDR 0.5 billion, to SDR 23.4 billion. Disbursements under the SAF and ESAF totaled SDR 0.6 billion during the year, and when these are included, total IMF credit outstanding to members in 1991/92 increased by SDR 1.1 billion, to SDR 24.0 billion.

Although overdue financial obligations to the IMF rose slightly to SDR 3.5 billion during 1991/92, according to the report, both the absolute increase in such obligations and their rate of growth were the lowest since 1981/82.

During 1991/92, the Board continued to implement the three key elements—prevention, deterrence, and intensified collaboration—of the strengthened cooperative strategy on arrears. Moreover, the Board has maintained and extended various measures—including the buildup of precautionary balances—to strengthen the IMF's financial position against the consequences of arrears.

Copies of the 1992 Annual Report are available free of charge in English, French, and Spanish from Publications Services, Box S-355, IMF, 700 19th St., N.W., Washington, D.C. 20431, U.S.A.

From The Executive Board . . .

Moldova: New Member. The Republic of Moldova today became a member of the IMF. The IMF's Articles of Agreement were signed in Washington by Mr. Andrei Sangheli, Prime Minister of Moldova. The initial quota of Moldova in the IMF is SDR 60 million (about $87 million).

With the admission of Moldova, the membership of the IMF now totals 168 countries. The total of members' quotas in the IMF is SDR 96,465.05 million (about $139,833 million).

Press Release No. 92/61, August 12

Albania: Stand-By Credit. The IMF has approved a stand-by credit for Albania, authorizing drawings up to the equivalent of SDR 20 million (about $29 million) over the next 12 months to support the Government's economic and financial program. This is the first use of IMF credit by Albania, which became a member of the IMF on October 15, 1991 with a quota of SDR 25 million (about $36 million).

The collapse of Albania's system of central planning and rigid economic controls has been accompanied by a breakdown of most government institutions. Since 1990, the downward spiral of the economy has worsened, and financial and external imbalances have widened dramatically. Official data point to a fall in the country's total output to the level of the mid-1970s, comparable to the poorest regions in the world.

In spite of these very difficult conditions, the new Government has embarked on a comprehensive reform program to rebuild essential institutions, re-establish financial stability, and move toward a market-based economy. It has implemented a threefold strategy centering on price reform and exchange and trade system liberalization, and bringing domestic demand into line with available resources. The 1992–93 program aims at the stabilization of output in 1993, with emphasis on an early revival of agriculture; a reduction in monthly inflation to 2–3 percent by mid-1993 from 6 percent in June 1992; and the gradual building up of the country's international reserves. To these ends, the program contemplates a major reduction in the budget deficit, use of an active interest rate policy and other instruments of monetary control, and the introduction of an incomes policy.

Structural reforms under the program focus on improving management and financial performance of state enterprises as well as on transferring them to private ownership; completing the privatization of agricultural cooperatives; creating an appropriate legal and regulatory framework for private enterprises; and developing an efficient financial sector. Measures have been introduced for the protection of targeted low-income groups through an improved social safety net. The success of Albania's program hinges crucially on concessional external support, which will be needed to meet large humanitarian needs and provide budgetary financing. External support, in the form of both financial and technical assistance, will also be needed to restart the more efficient state enterprises.

Press Release No. 92/62, August 26

Mali: Enhanced Structural Adjustment Facility. The IMF has approved a three-year arrangement for the Government of Mali authorizing loans up to the equivalent of SDR 60.96 million (about $90 million) in support of the Government's 1992–95 medium-term economic program under the enhanced structural adjustment facility (ESAF). Mali may draw up to SDR 20.32 million (about $30 million) in two equal semiannual installments in support of the 1992–93 program.

Mali implemented during 1989–90 a macroeconomic and structural reform program with financial support from the IMF. In early 1991, however, civil unrest had adverse effects on Mali's economic and financial situation. Real GDP declined by 0.2 percent in 1991, compared to an average growth rate of 5 percent during the preceding two years. In the fiscal area, government revenues declined owing to the destruction of custom offices, and total outlays rose because of spending devoted to reconstruction.

The newly elected Government adopted a medium-term adjustment program covering the period July 1992–June 1995. The program aims to restore economic growth, maintain low inflation, and achieve a viable external position through restrained fiscal and monetary policies, and a further deepening of ongoing structural reforms. Real GDP is targeted to increase by almost 6 percent in 1992 and by 4 percent in 1993; the annual rate of inflation is to be limited to 2.5 percent over the period; and the external current account deficit will be reduced. In the fiscal area, the program aims to reduce the overall deficit by improving tax collection, raising additional revenues, and containing expenditure. Monetary policy will increasingly rely on indirect instruments, maintenance of positive real interest rates, and reinforced banking supervision.

In the area of structural reforms, the only remaining price control—on petroleum products—has been eliminated, and procedures for establishing new firms and a new labor code will be enacted. Additional public enterprises will be privatized or restructured, and government monitoring will be strengthened for firms that remain in the public sector.

The Government of Mali is designing policies that will benefit the poor while improving its capacity to identify the most vulnerable among them. In the short term, it will focus on reducing the social costs associated with some of the adjustment measures, including a safety net to assist public sector workers who lose their jobs. The authorities also plan to strengthen basic health care and increase the enrollment ratio in primary schools.

Mali joined the IMF on September 27, 1963, and its quota is SDR 50.80 million (about $75 million). Mali's outstanding financial obligations to the IMF currently total SDR 39.22 million (about $58 million).

Press Release No. 92/63, August 28

Ukraine: New Member. Ukraine became a member of the IMF today when Mr. Hryhoriy Pyatachenko, Minister of Finance, signed the IMF's Articles of Agreement in Washington. The initial quota of Ukraine in the IMF is SDR 665 million (about $990 million).

With the admission of Ukraine, the membership of the IMF now totals 169 countries. The total of members' quotas in the IMF is SDR 97,130.05 million (about $144,689 million).

Press Release No. 92/64, September 3

Stand-By, Extended, Structural Adjustment Facility (SAF), and Enhanced Structural Adjustment Facility (ESAF) Arrangements as of July 31, 1992

(million SDRs)

Member	Date of Arrangement	Expiration Date	Amount Agreed	Undrawn Balance
Stand-by arrangements			**5,168.69**	**3,563.32**
Barbados	February 7, 1992	May 31, 1993	23.89	12.29
Brazil	January 29, 1992	August 31, 1993	1,500.00	1,372.50
Bulgaria	April 17, 1992	April 16, 1993	155.00	93.00
Cameroon	December 20, 1991	September 19, 1992	28.00	20.00
Costa Rica	April 8, 1991	September 30, 1992	33.64	8.00
Côte d'Ivoire	September 20, 1991	September 19,1992	82.75	49.65
Czechoslovakia	April 3, 1992	April 2, 1993	236.00	218.00
Dominican Republic	August 28, 1991	March 27, 1993	39.24	39.24
Ecuador	December 11, 1991	December 10, 1992	75.00	56.44
Egypt	May 17, 1991	November 20, 1992	278.00	130.80
El Salvador	January 6, 1992	March 5, 1993	41.50	41.50
Gabon	September 30, 1991	March 23, 1993	28.00	24.00
India	October 31, 1991	June 30, 1993	1,656.00	924.00
Jamaica	June 28, 1991	September 30, 1992	43.65	10.95
Jordan	February 26,1992	August 25, 1993	44.40	29.60
Mongolia	October 4, 1991	December 31, 1992	22.50	8.75
Morocco	January 31, 1992	March 31, 1993	91.98	73.58
Nicaragua	September 16, 1991	March 17,1993	40.86	23.83
Panama	February 24, 1992	December 23, 1993	93.68	68.63
Papua New Guinea	July 31, 1991	September 30, 1992	26.36	26.36
Philippines	February 20, 1991	December 31, 1992	264.20	150.95
Romania	May 29, 1992	March 28, 1993	314.04	157.02
Uruguay	July 1, 1992	June 30, 1993	50.00	34.03
Extended arrangements			**12,417.75**	**6,297.73**
Argentina	March 31, 1992	March 30, 1995	2,149.25	2,003.17
Hungary	February 20, 1991	February 19, 1994	1,114.00	556.77
Mexico	May 26, 1989	May 25, 1993	3,729.60	466.20
Poland	April 18, 1991	April 17, 1994	1,224.00	1,147.50
Venezuela	June 23, 1989	March 22, 1993	3,857.10	1,851.50
Zimbabwe	January 24, 1992	January 23, 1995	343.80	272.60
SAF arrangements			**76.44**	**39.95**
Burkina Faso	March 13, 1991	March 12, 1994	22.12	15.80
Comoros	June 21, 1991	June 20, 1994	3.15	2.25
Lao P.D.R.	September 18, 1989	September 17, 1992	20.51	—
Rwanda	April 24, 1991	April 23, 1994	30.66	21.90
ESAF arrangements			**1,758.19**	**640.18**
Bangladesh	August 10, 1990	August 9, 1993	345.00	57.50
Burundi	November 13, 1991	November 12, 1994	42.70	29.89
Guinea	November 6, 1991	November 5, 1994	57.90	49.22
Guyana	July 13, 1990	July 12, 1993	81.52	17.71
Honduras	July 24, 1992	July 23, 1995	40.68	33.90
Kenya	May 15, 1989	August 1, 1992	261.40	45.23
Lesotho	May 22, 1991	May 21, 1994	18.12	10.57
Malawi	July 15, 1988	September 29, 1992	66.96	5.58
Mozambique	June 1, 1990	May 31, 1993	100.65	30.50
Sri Lanka	September 13, 1991	September 12, 1994	336.00	224.00
Tanzania	July 29, 1991	July 28, 1994	181.90	128.40
Togo	May 31, 1989	May 19, 1993	46.08	7.68
Uganda	April 17, 1989	November 27, 1992	179.28	—
TOTAL			**19,421.07**	**10,541.18**

Note: Figures may not add to totals because of rounding.

Data: IMF Treasurer's Department

Bolivia: Enhanced Structural Adjustment Facility. The IMF has approved an additional credit equivalent to SDR 27.21 million (about $40 million) for the Government of Bolivia under the enhanced structural adjustment facility (ESAF), in support of the country's fourth annual economic reform program. The credit follows disbursements equivalent to SDR 136.1 million over the last three years under the ESAF. The new credit is available in two semiannual installments, with the first disbursement equivalent to SDR 13.6 million (about $20 million) available on September 30, 1992.

Under the 1988–91 ESAF-supported program, real growth of Bolivia's GDP averaged just over 3 percent a year, compared with a decline of 1.2 percent a year in the preceding five years; inflation declined from an average of 35 percent in 1986–87 to 17½ percent a year in 1988–91; the balance of payments strengthened, and the stock of external debt declined from 101 percent of GDP at the end of 1987 to 77 percent at the end of 1991. Important structural reforms, including the revamping of the tax system, strengthening of the tax administration, and approval of a new law on government financial operations, providing, among other things, for an autonomous central bank, were implemented. At the same time, certain public enterprises were restructured, and a comprehensive law was passed to permit privatization of public enterprises, except for the petroleum and mining company. Financial sector and trade policy reforms, as well as measures to promote private investment, have provided greater flexibility in the economy.

The 1992–93 credit will support Bolivia's efforts to continue and deepen structural reforms and to adjust to the adverse effects of a reduction in the price of natural gas exports to Argentina. The program envisages real GDP growth of 3½ percent a year in 1992–93, a reduction in inflation from 14½ percent at the end of 1991 to 7½ percent by the end of 1993, and a further strengthening of the

Currency Units per SDR

Currency	AUGUST 7	10	11	12	13	14	17	18	19	20
Deutsche mark	2.13898	2.12537	2.11998	2.12448	2.12083	2.12123	2.12696	2.11801	2.11843	2.11788
French franc	7.19445	7.1841	7.20580	7.23295	7.18443	7.21124	7.21192	7.19887	7.19726	7.17708
Japanese yen	184.360	185.079	185.472	186.036	184.400	183.805	183.290	182.887	183.785	184.14
Pound sterling	0.750174	0.751484	0.746887	0.751960	0.751944	0.752772	0.754459	0.752143	0.753252	0.750529
U.S. dollar	1.44290	1.44990	1.44987	1.44900	1.44902	1.453	1.45307	1.45329	1.45227	1.45395
Argentina peso				1.43201	1.43529	1.4382		1.43977	1.4382	1.44182
Australian dollar	1.95410	1.95925	1.97821	1.98800	2.01449	2.02190	2.00869	2.0112	2.00451	2.0139
Austrian schilling	19.0122	14.9553	14.9089	14.9580	14.9251	14.9194	14.9705	14.9083	14.9051	14.8695
Bahrain dinar	0.542542	0.54387	0.543289	0.543892	0.544091	0.545225	0.545229	0.546431	0.546054	0.547324
Bangladesh taka	56.2743	56.3913	56.5232	56.4089	56.4982	56.667	56.5527	56.6783	56.6395	56.7704
Belgian franc	43.8809	43.7394	43.6297	43.7879	43.7012	43.7159		43.7219	43.6443	43.5749
Brazilian cruzeiro	6289.4	6372.57	6448.48	6495.03	6567.03	6649.73	6689.63	6779.65	6838.45	6900.45
Canadian dollar	1.70626	1.71770	1.71390	1.72259	1.72661	1.73072	1.7324	1.73969	1.73824	1.73801
Colombian peso		1118.44	1118.01	1114.36	1118.66	1120.67		1121.58	1121.41	1124.53
Danish krone	8.21804	8.19179	8.18035	8.1884	8.17748	8.18047	8.2101	8.18483	8.17483	8.17058
Finnish markka	5.8482	5.81408	5.82563			5.82508	5.85538	5.81987	5.81486	5.81241
Greek drachma	282.619	281.712	281.804	282.364	282.258	282.662	283.13	282.115	282.026	281.729
Indian rupee	37.3575	37.4061	37.5254	37.4456	37.5049	37.6102	37.5423	37.6257	37.5980	37.6869
Indonesian rupiah	2938.36	2941.02	2949.43	2943.28	2949.48	2955.4	2949.44	2957.45	2955.37	2962.25
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.448545	0.448478	0.450809	0.449802	0.450014	0.451676	0.450785	0.451788	0.451449	0.452489
Irish pound	0.985058	0.798972	0.803784	0.80555	0.799139	0.801257	0.800847	0.799126	0.797425	0.799916
Italian lira	1914.49	1907.78	1902.88	1908.83	1909.95	1910.68	1915.02	1909.9	1909.90	1909.38
Korean won			1143.6	1142.6	1143.83			1150.42	1149.47	1150.66
Kuwaiti dinar		0.425089	0.426158	0.425207	0.42559		0.426306	0.427008	0.426517	0.427277
Libyan dinar	0.414299	0.414299	0.414299	0.414299	0.414299	0.414299	0.414299	0.414299	0.414299	0.414299
Malaysian ringgit	3.80606	3.81502	3.82401	3.81911	3.81952	3.83105	3.82547	3.83323	3.83060	3.83787
Maltese lira	0.432058	0.431018	0.430791	0.430417	0.431201	0.431197	0.433789	0.431948	0.43089	0.431214
Nepalese rupee	61.9131	61.7412	61.5668	61.7560	61.9901	62.0431	61.918	62.0555	62.0119	62.1563
Netherlands guilder	2.48589	2.39634	2.40799	2.39799	2.38919	2.3978	2.39784	2.39226	2.39095	2.38334
New Zealand dollar	2.99244	2.9804	2.98836	2.99183	2.70215	2.70275	2.6908	2.70129	2.69088	2.69017
Norwegian krone	8.39136	8.39181	8.34443	8.37089	8.36216	8.3809	8.40609	8.3895	8.36072	8.35179
Omani rial	0.554807	0.55396	0.55739	0.556114	0.556994	0.558979	0.557532	0.55879	0.558398	0.559897
Pakistan rupee	26.2518	26.4272	26.5189	26.4372	26.4949	26.6053	26.5315	26.6126	26.5869	26.672
Portuguese escudo	191.929	191.921	190.97	191.526	191.919	191.911	192.272	191.716	194.512	193.934
Qatar riyal	5.25027	5.26019	5.27943	5.25484	5.27258	5.28892	5.27825	5.28886	5.28626	5.29697
Saudi Arabian riyal	5.40277	5.41501	5.42084	5.41951	5.42509	5.44149	5.43051	5.44257	5.43875	5.45141
Singapore dollar	2.3247		2.32305	2.32845	2.33189	2.33679	2.33737	2.34081	2.3383	2.34372
South African rand	3.80784	4.00017	4.00218	4.00708	4.01185	4.0298	4.02539	4.02199	4.02642	4.02997
Spanish peseta	135.912	135.654	136.265	135.819	135.952	136.319	136.368	136.101	136.053	135.817
Sri Lanka rupee	63.6809	63.8289	63.9695	63.8265	63.9566	64.15	64.0641	64.1916	64.1488	64.2981
Swedish krona	7.74709	7.71993	7.69887	7.72413	7.71752	7.73577	7.78222	7.7288	7.7239	
Swiss franc	1.9129	1.90648	1.90346	1.91494	1.91508	1.91287	1.91192	1.90483	1.90175	1.89317
Thai baht	39.926	39.5969	39.6889		39.9501	39.7173	39.6979	39.7101	39.6843	39.7697
Trinidad and Tobago dollar	8.14778	8.18057	8.17857	8.18027	8.17203	8.18069	8.1782	8.19182	8.18758	8.20186
U.A.E. dirham	5.297	5.30601	5.32137	5.30849	5.31788	5.33396	5.32501	5.33601	5.33128	5.34389
Venezuelan bolivar	97.3869	98.0541	98.1649	97.4859	97.9033	98.1356	98.1467	98.4459	98.4839	98.6396

Notes: 1. The value of U.S. dollar in terms of the SDR is the reciprocal of the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown. The exchange rates used for this purpose are noon rates in the London foreign exchange market. When the London market is closed, noon rates in the New York market are used. Frankfurt fixing rates are used when the New York market is closed. 2. The value in terms of the SDR of each of the other currencies shown above is derived from that currency's representative exchange rate against the U.S. dollar as reported by the issuing central bank and the SDR value of the U.S. dollar, except for the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of the domestic currency units per SDR.

Data: IMF Treasurer's Department

country's net international reserves. To these ends, the program seeks to reduce the deficit of the combined public sector from 4.3 percent of GDP in 1991 to 3.2 percent in 1993. Monetary and credit policy will continue to be geared to the achievement of the inflation and balance of payments objectives, relying on open market operations as a key policy instrument.

Structural reforms will continue during the program, focusing particularly on privatization, better fiscal policy management, further reforms in the financial sector, and gains in the efficiency of government operations. In July 1992, the 50 enterprises that are owned by regional development corporations and operate in competitive markets were offered for sale or liquidation by the Government. An evaluation of 18 enterprises owned by the armed forces is being undertaken with a view to their sale or liquidation in 1993. The regulatory framework for public utilities will be reviewed to encourage private sector participation in these activities, and the pension system is to be improved by allowing pension funds to be managed by private administrators.

Bolivia is an original member of the IMF, and its quota is SDR 90.7 million (about $134 million). Its outstanding financial obligations to the IMF arising from past operations and transactions currently total SDR 175 million (about $258 million).

Press Release No. 92/65, September 11

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
September 7	6.26
September 14	6.26
September 21	5.91

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates call (202) 623-7171.

Data: IMF Treasurer's Department

IMF-Supported Program Helps India Emerge from Crisis

A little over a year ago, India was in the midst of its severest balance of payments crisis: gross official reserves had fallen to the equivalent of just a few weeks of imports, inflation was on the rise, and industrial growth was faltering. With policymaking paralyzed by political turmoil and capital in full flight, the risk of external default loomed large.

The economic situation has changed dramatically since then. A credible IMF-supported stabilization program, centered on fiscal consolidation and structural reforms, has made possible a reconstitution of foreign exchange reserves far in excess of the most optimistic expectations. Inflation has declined, and the economy is showing signs of revival.

In the following article, Ranjit S. Teja of the IMF's Central Asian Department reviews India's recent economic performance and examines the principal goals and features of the reform program and its results thus far.

Origins of the Crisis

As in many other countries, India's balance of payments crisis was long in the making and had its roots in the high and growing fiscal deficits of the 1980s. This occurred against the background of a vast regulatory apparatus designed to support a large publicly owned heavy-industries sector while leaving the production of consumer goods (imports of which were banned) to the private sector. Despite its reputation for heavy-handed interventionism, which also extended to blocking foreign investment, India had nevertheless also established a long track record of macroeconomic stability based on generally cautious financial policies. Thus, as the fiscal deficit widened, India was able to draw on this history of stability to finance rising current account deficits through private capital flows, including $10 billion in repatriable deposits from non-

India: Economic Indicators

	1989/90	1990/91	1991/92 Program	1991/92 Actual	1992/93 Program
			(percent)		
Real GDP growth	5.0	5.5	3–3.5	2.5	3.5–4.0
Inflation (end of period)	9.1	12.1	9.0	12.8	8.0
Savings/GDP	21.0	22.6	18.8	18.1	19.6
Investment/GDP	24.1	25.6	21.5	19.5	22.1
Current account/GDP	-3.0	-3.0	-2.7	-1.4	-2.5
Export volume growth	17.5	4.4	4.1	-2.1	4.4
Import volume growth	4.4	1.1	-5.8	-17.4	15.0
Broad money growth	19.4	15.1	13.0	18.5	10.4
			(billion U.S. dollars)		
External accounts					
Exports	16.9	18.5	19.5	18.1	19.4
Imports	24.4	26.4	24.9	21.0	24.4
Current account deficit	-8.1	-8.8	-6.3	-3.6	-6.1
Gross reserves	4.6	2.8	2.8	6.3	6.6
(months of imports)	2.3	0.3	1.3	3.7	3.2

Data: Indian authorities; and IMF staff projections and estimates.

resident Indians. With high domestic demand growth, inflationary pressures started to build up by early 1990, while the drawdown in foreign exchange reserves and a growing debt burden raised questions about the sustainability of the current account.

Two successive shocks in the latter half of 1990 exposed the fragility of the balance of payments. First, the Middle East conflict did double damage by raising India's oil import bill and lowering workers' remittances. At the same time, despite a steady depreciation of the exchange rate, export receipts contracted, owing partly to the slowdown in the world economy but also reflecting a lengthening in lags in the repatriation of export proceeds and the bringing forward of payments for imports (the last in anticipation of import controls and further currency depreciation).

Second, domestic political turmoil resulted in the fall of two successive governments so that, pending fresh elections, the caretaker Government could do little more than pass an interim budget largely devoid of policy action. This drained the last hopes that external creditors and the public may still have had about a firm response to the deteriorating economic situation.

As a result, India's access to medium- and long-term bank borrowing all but dried up, while nonresident Indians began withdrawing their deposits. Notwithstanding substantial recourse to IMF borrowing (first credit tranche and compensatory and contingency financing facility purchases totaling SDR 1.6 billion in January 1991) and tighter import controls, gross official reserves continued to decline steadily in the face of capital flight. The crisis deepened after the assassination of former prime minister Rajiv Gandhi, and, by the time the new Government took office in June 1991, readily usable foreign reserves were within weeks of being depleted.

Emergency Stabilization

Within days of assuming office, the new Government announced a two-stage strategy aimed at restoring public confidence and stemming capital flight. The first stage consisted of an emergency package of stabilization measures, including a 19 percent devaluation of the currency and the establishment of a de facto dual exchange rate regime (by giving exporters part of their earnings in the form of a tradable import license). Monetary policy was further tightened and interest rates raised substantially. The authorities also undertook a large amount of gold-backed external borrowing as a sign of their commitment to meeting all external obligations.

The second stage coincided with the 1991/92 budget in late July, the central element of which were credible—and quickly implemented—measures to lower the fiscal deficit to 6½ percent of GDP from about 9 percent the previous year. With only eight months left in the fiscal year (which runs April through March), this represented a sharp contraction in fiscal stimulus.

Just as important, the crisis proved to be a watershed in policy orientation. It triggered a decisive shift away from the interventionism of the past and from the highly gradualist approach to reform. By far the most far-reaching structural reform introduced with the budget was the virtual abolition of the complex system of industrial licensing, which had for decades governed the entry, expansion, and diversification of industries. A number of measures were announced to strengthen competition between the private sector and public enterprises, including a narrowing of the areas reserved exclusively for the public sector. Soon afterwards, the price of key inputs supplied by the public sector, such as steel, were decontrolled. Foreign direct investment was significantly liberalized, from approval on a case-by-case basis to automatic approval of 51 percent foreign equity ownership in a wide range of industries. With a credible and rounded adjustment well under way, and bilateral donors and the World Bank committed to making available a significant amount of quick-disbursing assistance, an SDR 1.7 billion stand-by arrangement was approved by the IMF's Executive Board on October 31, 1992.

Developments Under the Program

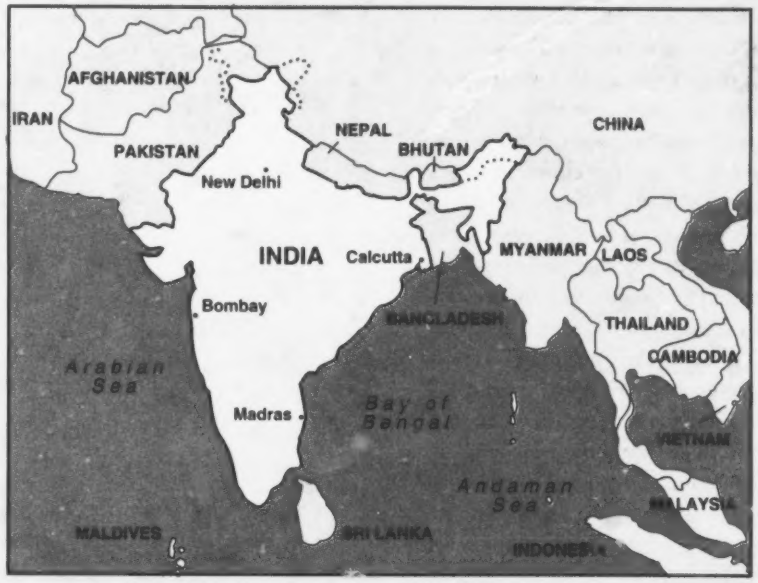
With the rebuilding of critically low foreign exchange reserves an overriding objective, the adjustment strategy over the 20 months of the stand-by arrangement centered on a near halving of the central government fiscal deficit, which lay at the root of external and internal macroeconomic imbalances. This was to be supported by tight monetary policy and a deepening of the structural reforms announced in July. The first phase of fiscal consolidation—a reduction in the deficit to 6½ percent of GDP in 1991/92—was, in the event, successfully brought about mainly through expenditure reduction, including cuts in subsidies, defense spending, and transfers to states and public enterprises.

The first five months of the program witnessed a remarkable reversal of capital flight and rebuilding of *net* international reserves, which rose by over $3 billion to bring the foreign exchange cover to the equivalent of three months of imports. The sizable balance of payments surplus in the second half of 1991/92 largely reflected the effect of import-compression measures, taken at the height of the crisis, that lowered import volume by over 17 percent. Non-oil imports, consisting mainly of capital goods and inputs in production, were particularly hard hit. Exports, which had been robust through the late 1980s, were also ad-

India: A Profile

Despite a large and varied natural resource base and a rich endowment of skilled manpower, India remains among the poorest countries of the world, with a per capita income of about $340. Although it is one of the largest economies in terms of population (second only to China), in terms of total GDP, it is only slightly ahead of the Netherlands.

India today has a large industrial sector, which accounts for over one- fourth of GDP and produces a wide array of manufactures. Agriculture contributes less than 40 percent of total output, but still employs 70 percent of the labor force. India's export base, too, has become more diversified over the years, with the bulk of exports shifting from a few primary goods to light manufactures, textiles, and jewelry.



Considerable progress was achieved in alleviating poverty and improving social conditions during the 1980s, a decade of gradual reform and faster economic growth. Nevertheless, indicators of health, nutrition, and education remain below those in many other countries at a similar stage of development.

versely affected, partly because of the shortage of imported inputs, but also because of the collapse of trade with the former U.S.S.R. Total trade, therefore, declined sharply, and the overall current account deficit was nearly halved in 1991/92. At the same time, there was a major reflow of capital. About $2½ billion was mobilized from the sale of special bonds denominated in foreign currencies and from an amnesty scheme to encourage the repatriation of assets held abroad. Although interest rates were clearly an important factor here, the larger reason for the reversal of capital flight was the restoration of confidence following up-front structural reforms and fiscal actions in the budget (including politically difficult cuts in fertilizer subsidies and transfers to states).

One side effect of the massive buildup in foreign exchange was an expansion in broad money far in excess of the program target. (All monetary performance criteria were met, however, having been set on domestic credit extended by the central bank.) Partly as a result, inflation did not slow down as quickly as had been hoped, although it did fall from its peak of 17 percent in August 1991 to about 13 percent at the end of March 1992. At the same time, output growth slowed markedly as the severe squeeze on imported inputs led to a downturn in industrial production. Thus, by the start of 1992/93, the focus of short-run adjustment shifted from averting external default to lowering inflation further and reviving the economy.

In this respect, the 1992/93 budget, which aims at a further reduction in the fiscal deficit to 5 percent of GDP, has certainly helped. Inflation has since fallen to below 9 percent, nearly half the level of a year ago, while imports have picked up—and, with that, so has industry. The current budget places most of the emphasis on continued expenditure reduction, especially cuts in subsidies (on which further action is anticipated). Revenues are projected to rise moderately, despite significant cuts in import tariffs, reflecting the anticipated rebound in imports following the elimination of all direct controls imposed during the previous two years. Although fiscal variables were evolving roughly as planned through the first quarter of 1992/93, broad money growth remains above programmed levels—once again a result of an unsterilized increase in foreign exchange reserves.

As such, excessive money growth is still a concern for the authorities.

In addition to the liberalization of trade, other structural reforms were set in motion at the time of the budget. Perhaps the most prominent of these was the move to make the rupee partially convertible for current account transactions. Thus, a myriad of quantitative restrictions on nonconsumer goods imports was eliminated, and importers were allowed to purchase foreign exchange in a newly established dual foreign exchange market; exporters were allowed to convert 60 percent of their earnings at a free market exchange rate, the remaining 40 percent being surrendered to the central bank at the official exchange rate (mainly to finance official imports of fertilizer and petroleum products). Contrary to initial fears, the free foreign exchange market has been remarkably orderly, with the premium over the official rate holding at 15–20 percent. The dual exchange rate regime is expected to be gradually unified over the next two to three years.

Several major actions were taken in the area of financial sector reform. Foremost among these was the sharp cutback in the cash reserve ratio and the statutory liquidity requirement (which obliges banks to hold government securities at below-market rates of interest). Further, the interest subsidy to "preferred" sectors was reduced, while deposit interest rates were liberalized. In addition, steps were taken to strengthen bank supervision and to phase in Basel Committee norms for capital adequacy; the financing of banks' recapitalization needs remains one of the key challenges for the medium term. In recent months, the financial sector has been shaken by a scandal involving the illegal channeling of bank resources to the stock market. While the authorities see this as an argument for speeding up reforms, the impact of the scandal on the pace of financial sector reform remains to be seen.

A factory outside Bombay: Indian industry is beginning to pick up.

The Agenda Ahead

Clearly, India has come a long way since the program of fiscal consolidation and structural reform was initiated last year. However, the authorities recognize that much remains to be done. They are presently drawing up a medium-term adjustment program to be supported by the extended Fund facility. The program will aim at deepening the reforms initiated under the stand-by arrangement, with the key priorities being to

- further liberalize trade and move toward current account convertibility;
- improve the *quality* of fiscal adjustment (by extending adjustment down to the level of the states and public enterprises, implementing tax reform, and shifting the burden of adjustment from capital to current spending); and
- substantially extend public enterprise reform while implementing policies that will allow unviable firms to be restructured or closed.

In addition, a nascent social safety net should become operational in the coming months.

SEPTEMBER 21, 1992 • Volume 21, Number 18

Gerald R. Rosen, *Editor*

Paul Gleason • Vikram R. Khanna • Sheila Meehan • Margaret Casey • Elisa Diehl • Sharon Metzger • Susan Scott • Philip Torsani
Assistant Editor *Assistant Editor* *Assistant Editor* *Senior Editorial Assistants* *Editorial Assistant* *Art Editor* *Graphic Artist*

The *IMF Survey* (ISSN 0047-083X) is published by the International Monetary Fund 23 times a year, ordinarily on alternate Mondays, in addition to an annual *Supplement on the Fund*, an annual Index, and other occasional supplements. Editions are also published in French (*Bulletin*) and Spanish (*Boletín*).The opinions and materials contained in the *IMF Survey*, including any legal aspects, do not necessarily reflect the official views of the IMF. Editorial correspondence should be addressed to Current Publications Division, Room IS5-1500, International Monetary Fund, Washington, D.C. 20431, U.S.A. Telephone: (202) 623-8585. The *IMF Survey* is distributed by first-class mail in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged an annual rate of US$60.00. Apply for subscriptions to Publication Services, Box S-99, IMF, Washington, D.C., 20431 U.S.A. Telephone: (202) 623-7430. Cable: Interfund. Facsimile: (202) 623-7201.